IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO **DIVISION OF FINANCIAL MANAGEMENT** **AUGUST 2006 VOLUME XXVIV NO. 2**

Idaho's economic outlook has brightened this summer. This improvement reflects the combined positive impacts of the state's recent economic performance and the projected stronger national economy. Bolstered by the surge of construction employment, Idaho actual total nonfarm employment was nearly 2,000 higher in this year's first quarter than had been predicted by the Division of Financial Management in April 2006.

The strong employment performance has increased the jobs forecast in two ways. First, it has raised the starting point of the forecast by about 2,000 jobs. Second, the state's job growth has more momentum than had been previously predicted. These two factors, combined with the improved national economic outlook, translate into faster local job growth. Specifically, Idaho nonfarm employment was previously forecast to expand an average of 2.7% annually from 2005 to 2009. In the current forecast it advances 3.0% per year. At this higher pace, Idaho nonfarm employment reaches about 688,100 jobs in 2009, which is about 5,600 more jobs than in the previous forecast. Idaho nominal personal income is forecast to expand about 6.7% per year through 2009. Adjusting for inflation, Idaho personal income is forecast to increase 4.6%.

The U.S. economic forecast has improved marginally from the previous forecast. In the April 2006 forecast it was expected GDP growth would seesaw from 3.4% this year to 2.4% next year then average about 3.2% annual growth in 2008 and 2009. In the current forecast real output expands 3.4% in 2006 and 2.6% in 2007 followed by 3.2% annual growth thereafter. As a result of the stronger start, U.S. real GDP is about $30 billion higher in 2009 than in the previous forecast.

The outlook for national nonfarm employment has also improved. In the current forecast, employment grows faster in 2007 and 2008 than in the previous forecast, resulting in over one-half million more jobs in 2009. The stronger job showing pushes wages and salary payments above previously forecasted levels.

Despite the higher wages and salary payments, total national real personal income is slightly lower than in the previous forecast. This is because the projected farm proprietors' income and dividends, interest, and rent payments components of personal income have been lowered. Overall, U.S real personal income should rise about 3.6% annually, compared to 3.7% in the previous forecast.

Inflation is markedly higher in the current forecast. Specifically, the consumer price index rises by 3.3% in 2006. Most of this year's inflation outlook reflects high energy prices. Factors driving up the price of crude include the start of the Gulf of Mexico hurricane season, continued tensions in Iran and Nigeria, and the outbreak of hostilities between Hezbollah and Israel. While last year's price shocks were limited to the energy sector, they have seeped into a wide range of goods and services this year.

Rising prices have focused attention on the nation's central bank. The Federal Reserve is determined above all to keep a lid on inflation. To this end, the Federal Reserve has raised its federal funds rate in 25-basis points increments since June 2004. However, the Federal Reserve will find it harder to tighten in the future as the economy cools. Indeed, it passed on its most recent chance to raise the federal funds rate. The Federal Reserve may still raise its bellwether interest rate again this year, but further increases thereafter are unlikely. In fact, the central bank will most likely loosen its monetary reins in the near future, as the economy cools and inflation eases.

Federal coffers are benefiting from the recent economic growth. Earlier this year the executive branch projected the federal deficit would be $426 billion in fiscal year 2006. Based on strong collections since then, its deficit estimate has been reduced to $296 billion, which is close to the $289 billion projected in the current forecast. Both estimates are lower than last year's $319 billion deficit.

The complete July 2006 *Idaho Economic Forecast* is at http://dfm.idaho.gov/Publications/EAB/Forecast/2006/July/iefjuly2006.html

JAMES E. RISCH, Governor

Division of Financial Management
700 W. Jefferson, Room 122
PO Box 83720
Boise, Idaho 83720-0032 (208) 334-3900

PRSRT STD
U.S. POSTAGE
PAID
PERMIT NO. 1
BOISE, ID 83720

RETURN SERVICE REQUESTED

Brad Foltman, Administrator

Economic Analysis Bureau
Michael H. Ferguson, Chief Economist
Derek E. Santos, Economist

General Fund Update

As of July 31, 2006

	$ Millions		
Revenue Source	FY07 Executive Estimate[3]	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,245.3	84.1	87.8
Corporate Income Tax	207.0	9.1	14.5
Sales Tax	1,074.6	82.5	85.7
Product Taxes[1]	21.7	2.4	2.5
Miscellaneous	113.9	9.9	10.5
TOTAL GENERAL FUND[2]	**2,662.5**	**188.1**	**200.9**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of August 2006

This *Outlook* presents the mid-summer update of the FY 2007 General Fund revenue forecast. It also incorporates the impact of the sales tax rate change to 6% effective October 1, 2006.

The current forecast is $354.9 million (15.4%) above the forecast released last January. This increase is due to two principal factors. First, revenue in FY 2006 was $203.2 million higher than was forecast last January ($2,431.3 million actual versus $2,229.1 million predicted), yielding a much higher starting point for FY 2007 revenue. Second, the sales tax rate has been increased (to 6% effective October 1, 2006), bringing in an additional $147.3 million in FY 2007. The normalized growth rate for FY 2007 revenue growth is down slightly, from 4.7 % to 4.5%.

The first month of the new fiscal year has produced revenue that is $12.8 million higher than expected. This strength is primarily spread across the big three (individual income, corporate income, and sales taxes) revenue sources.

Individual income tax revenue was $3.6 million higher than expected in July. The bulk of this gain ($3.1 million) was from higher-than-expected withholding collections. Filing collections were $0.4 million higher than predicted. On the payout side, refunds were $0.4 million higher than expected and miscellaneous diversions were $0.5 million lower than expected.

Corporate income tax revenue was exceptionally strong in July at $5.3 million more than expected. Filing payments were $1.7 million higher than predicted for the month, while quarterly estimated payments were essentially on target. Refund payments were $0.7 million lower than expected for the month. The majority of the “gain” in July ($3.0 million) was from the Multi-State Tax Compact, whereby funds received previously were deposited to the General Fund in July.

Sales tax revenue was $3.2 million higher than expected in July. Sales tax growth is expected to soften in the months ahead as the impacts of rising home prices and interest rates are felt in housing and durable goods sales.

Product taxes were $0.1 million ahead of target in July, while miscellaneous revenue was $0.6 million higher than expected for the month.